No. 84-907

FILED
DEC 31 1984
ALEXANDER L. STEVAS
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

FRED LAVERY PORSCHE AUDI CO., WOOD MOTORS, INC., VOLKSWAGENWERK, A.G., and AUDI NSU AUTO UNION, A.G.,

Petitioners,

vs.

ROBERT W. KEARNS,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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RESPONDENT'S RULE 28 STATEMENT

Respondent Robert W. Kearns, being an individual, has no corporate affiliations.

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TO THE UNITED STATES COURT OF APPEALS
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BRIEF FOR RESPONDENT IN OPPOSITION

The petition filed in this case presents no question warranting this Court's attention.

On the contrary, both the District

Court and the Court of Appeals decided the issue of whether petitioners' attorney should be disqualified in accordance with settled authority -- as to which there was no dispute below. The only controversy between the parties in the courts below arose, not from what the law is, but from what the facts were. The District Court decided the facts, after a hearing, adversely to petitioners; those fact findings are the subject of petitioners' complaint here.

Neither this Court nor the Court of Appeals for the Federal Circuit is in the business of making fact findings, and petitioners' arguments to the contrary fly in the face of Rule 52(a) of the Federal Rules of Civil Procedure and countless decisions of this Court (Zenith Radio Corp. v. Hazeltine Research, Inc. (1969), 395 U.S. 100, 123).

In demonstrating that this case is not

one warranting this Court's review, we lead off by a brief statement of the facts since petitioners have stated them neither fully nor fairly.

RESPONDENT'S COUNTERSTATEMENT OF THE CASE

I. Kearns' Consultation With Lalos.

After the lawyer representing him in the Ford litigation concluded that he must withdraw, Kearns began a shopping expedition to find new counsel to represent him in that litigation. In the middle of a Friday afternoon, Kearns arrived in the office of Peter N. Lalos (without an appointment) and commenced a discussion with Lalos respecting his litigation with the automotive industry. To his credit, Lalos advised Kearns that he already represented Audi. But that, the District Court found, did not prevent Lalos from considering representing Kearns.

At this point, the story offered by Kearns and Lalos at the hearing in the District Court differed greatly. For example, Kearns testified that he, after Lalos told him that Lalos represented Audi, started to leave. Kearns remained at Lalos' request, because Lalos told him that Lalos was sure that he could get Audi's permission to represent Kearns in litigation against Ford -- a contention which Lalos has denied.

Even with the sharp conflict in the testimony of the two men, two significant facts were not in dispute:

(a) As a result of his conference with Kearns, Lalos looked into the Ford lawsuit, including Ford's allegations that the subject matter of the patents in suit was "on sale" and that the patents were procurred through "fraud";

(b) To get an overview of the Ford case, Lalos asked Kearns to authorize his former

attorney to discuss the Ford case with him; Lalos called Kearns' former attorney and discussed with him the "on sale" and "fraud" defenses.*

During the hearing in the District Court, Kearns testified that, because he was seeking to hire an attorney on a contingent-fee basis, he went into the case in great detail so that any new attorney would be advised of the strengths and weaknesses of Kearns case against Ford. Kearns, at Lalos' request, brought in documents respecting the case (excluding the correspondence with his attorney); Kearns also contacted his previous attorney, advising him that he had Kearns' permission to discuss "in depth" the case with Lalos as his prospective attorney.

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* Later, when Lalos filed his appearance on Audi's behalf, he pleaded the very "on sale" and "fraud" defenses that he had discussed with Kearns and his former lawyer!

As Lalos told the story:

> "...we had a problem with Audi because we established at the outset that I represented Audi and Mr. Kearns had a notice of infringement in January of 1980; therefore, it was an obvious conflict we had."

Lalos denied that he told Kearns that Audi might be willing to release him to represent Kearns:

> "I do not have to ask Audi whether I want to represent another client. I'm under no obligation to Audi. I may have done it as a courtesy, but I was under no obligation to Audi not to take another case involving another automotive company."

Lalos admitted that he had conferred with Kearns' previous counsel, but assured the District Court that their conversations were restricted to publicly-available material. Lalos also testified that he never looked at the documents Kearns delivered to him to review.

II. The District Court's Decision.

The District Court, following arguments of counsel, issued an opinion from the bench disqualifying Lalos and his firm from further representation of Kearns. (That oral opinion was followed by a written opinion reported at 573 F.Supp. 91.) The District Court found (573 F.Supp. at 92-3):

> "...Lalos said to Kearns that he might be able to represent him in the pending litigation against Ford, if there can be a satisfactory settlement of the case."

Finding that Kearns believed that Lalos considered representing him, the District Court found also that Kearns and Lalos discussed the facts of the case "both public and confidential, in great detail" (573 F.Supp. at 93).

The District Court also found that its view of the facts was corroborated by other

evidence in the record, including contemporaneous notes made by Kearns.

Relying on Trone v. Smith (9 Cir., 1980), 621 F.2d 994, 998-9, the District Court held that the controlling test was whether there is a "possibility" or an "appearance of the possibility" that the attorney may have received confidential information during his prior representation of a client which would be relevant to later representation. Based on that legal standard, as to which there was no dispute, the District Court concluded (573 F.Supp. at 95):

> "...Lalos is disqualified from further representation of the defendants in this case because he received confidential information concerning a case which is substantially related to the instant case."

III. The Decision of the Court of Appeals.

Dissatisfied with the decision of the

District Court, petitioners took their appeal to the United States Court of Appeals for the Federal Circuit. In an opinion handed down in October of 1984 and reported at 745 F.2d 600, the Court of Appeals affirmed.

In characterizing the case, the Federal Circuit wrote (745 F.2d at 601):

> "This is one of those cases in which the result turns on the assessment of the individual facts. We believe that on the record before it the District Court's factual findings were not clearly erroneous."

After reviewing the District Court's opinion and the record support for it, the Court wrote (745 F.2d at 603):

> "There is no significant dispute between the parties, and the Court agrees, as to the controlling legal principles."

The Court went on to state the oft-quoted rule of Westinghouse Electric Corp. v.

Kerr-McGee Corp. (7 Cir., 1978), 508 F.2d 1311, 1319, that:

> "...the fiduciary relationship existing between lawyer and client extends to preliminary consultation by a prospective client with a view to retention of the lawyer, although actual employment does not result."

The Federal Circuit, like the regional courts of appeal before it, recognized that (Trone v. Smith, 621 F.2d at 999):

> "... it is the possibility of the breach of confidence, not the fact of the breach that triggers disqualification."

The Federal Circuit put the issue before it thus (745 F.2d at 603):

> "The controversy in this case is not over these legal rules but over the factual question of whether there ever was, even preliminary, such a fiduciary relationship between Kearns and Lalos."

The Court went on to reject the very

argument that petitioners assert here, namely, that Kearns knew at the outset that, because of Lalos' prior representation of Audi, Kearns could not have believed that Lalos would even consider representing him on that point. The Federal Circuit wrote (745 F.2d at 605):

> "Appellants insist nevertheless that a fully knowledgeable Kearns made 'a deliberate, intelligent decision to continue to talk to Lalos', but they gave no reason why even a fully knowledgeable inventor would do the things Kearns did in this instance, if he believed that Lalos continued to represent the potential adversary Audi and would not consider representing Kearns."

Summing up, the Federal Circuit wrote (745 F.2d at 605):

> "In a word, it is too much to ask us on this record to overturn as clearly erroneous the District Court's specific factual findings that Kearns wanted Lalos to represent him against Ford and believed that Audi would be no barrier...."

ARGUMENT

A. The Petition Here Asks This Court To Perform An Impermissible Function, Namely To Review The Facts.

The petition in this case is fatally defective under the clear mandate of Rule 52 of the Federal Rules of Civil Procedure, providing as it does that findings of fact made by the District Judge "shall not be set aside unless clearly erroneous".

This Court made the point well in Zenith Radio Corp. v. Hazeltine Research Inc. (1969), 395 U.S. 100, 123:

> "In applying the clearly erroneous standard to the findings of a District Court sitting without jury, appellate courts must constantly have in mind that their function is not to decide factual issues de novo."

The Federal Circuit recognized its limited role under Zenith, and refused to reexamine the facts de novo, as petitioners

urged. The Federal Circuit wrote (745 F.2d at 605):

> "All this, and more, add up to adequate support for the trial judge's findings. We cannot say that they were clearly erroneous, i.e., that the District Court had to disbelieve Kearns and had to conclude that Kearns understood, all along, that Lalos was an adversary attorney who could not possibly undertake to represent Kearns against Ford because Lalos represented Audi."

In sum, the petition here raises a pure factual question and should be denied on that basis alone.

B. The Courts Below Found The Facts Correctly And Correctly Applied The Law.

Wholly apart from the defectiveness of the petition as raising factual questions, the courts below correctly decided this case adversely to petitioners.

The fundamental premise of the petition,

tirelessly reiterated throughout its text, is that "Lalos had a preexisting fiduciary duty to Audi" (Petition, p. 11). How Petitioners can even advance that unfounded position remains an total mystery in light of Lalos' own testimony in the District Court:

> "I don't have to ask Audi whether I want to represent another client. I'm under no obligation to Audi. I may have done it as a courtesy, but I was under no obligation to Audi not to take another case involving another automotive company."

Lalos also admitted that the very purpose of his investigation -- his discussions with Kearns and with Kearns' former counsel -- was to enable him to determine whether he "might be willing" to take Kearns' case. Said Lalos:

> "Now in that context I said to [Kearns] 'Well, I'd like to see something more. I'd like to see some of the pleadings in the case, and also, perhaps, I'd like to talk to [Kearns' former counsel] to get an overview of what the case is all about".

Plainly, Lalos had no business looking into "what the case is all about" if he, as the petition insists, had a "preexisting fiduciary duty" to Audi.

In sum, the testimony of Lalos himself certifies that even the factual questions raised by the petition are totally lacking in substance.

Wholly aside from Lalos' devastating admissions, the record here reveals an unmistakable "appearance of impropriety"; Lalos, the record proves, pleaded as defenses on Audi's behalf the very facts he had discussed with Kearns and his former lawyer.

When it is remembered that those facts were undisputed in the courts below, there can be no doubt that Lalos' representation of Audi in this case raises the "appearance of the possibility" that Lalos received confi-

dential information during his consultation with Kearns. On such facts, disqualification is mandatory (Trone v. Smith (9 Cir., 1980), 621 F.2d 994, 999).

CONCLUSION

This case was correctly decided, with no novel or disputed points of law involved. The petition for certiorari should be denied.

Respectfully submitted,

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